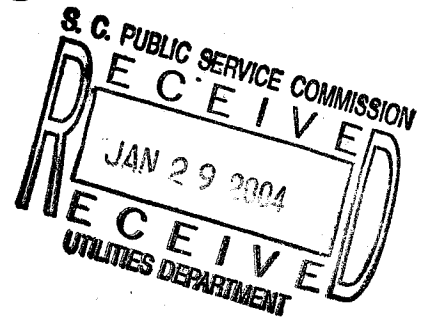


ORIGINAL

EW/30/04

Sherwood Enterprises, Inc. d/b/a
Sherwood Utilities Company - Application
for approval of an increase in its water and
sewer rates and charges.



Docket No. 2003-276-W/S

Direct Testimony
Barbara J. Crawford
Audit Department

RETURN DATE: 01/29/04
SERVICE: 01/29/04

Public Service Commission of South Carolina

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS
2 AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH
3 CAROLINA.

4 A. My name is Barbara J. Crawford. My business address is
5 101 Executive Center Drive, Columbia, South Carolina. I
6 am employed by the Public Service Commission of South
7 Carolina as an Auditor.

8 Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR
9 EXPERIENCE.

10 A. I received a B.S. Degree in Business Administration with
11 a major in Accounting from the University of South
12 Carolina. I am a Certified Public Accountant, licensed
13 in the State of South Carolina. I am also a Certified
14 Internal Auditor. I have more than twenty years of
15 audit experience, four and one-half of which have
16 involved the ratemaking process.

17 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING SHERWOOD
18 UTILITIES COMPANY?

19 A. The purpose of my testimony is to set forth in summary
20 form Staff's findings and recommendations resulting from
21 our examination concerning the above docket. These
22 findings and recommendations are set forth in the report
23 of the Audit Department with attached exhibits.

1 Q. I SHOW YOU THIS REPORT WITH ITS ATTACHED EXHIBITS,
2 ENTITLED "REPORT OF THE AUDIT DEPARTMENT, THE PUBLIC
3 SERVICE COMMISSION OF SOUTH CAROLINA, DOCKET NO. 2003-
4 276-W/S, SHERWOOD UTILITIES COMPANY". DID YOU AND THE
5 AUDIT STAFF PREPARE THIS DOCUMENT?

6 A. Yes, the report was prepared by other members of the
7 Audit Department Staff and me.

8 Q. (MARK FOR IDENTIFICATION). WOULD YOU PLEASE SUMMARIZE
9 THE CONTENTS OF THIS REPORT?

10 A. As outlined in the report's index, pages 1 through 4
11 contain the Staff's analysis of the report, with the
12 remaining pages 5 through 14 containing the Audit
13 Staff's supporting exhibits. The major part of my
14 testimony will refer to Audit Exhibit A, entitled
15 Operating Experience and Operating Margin - Combined.
16 Such Exhibit, as do all but one of the other of the
17 Audit Staff's exhibits, utilizes a test year ending
18 December 31, 2002.

19 Q. DO YOU HAVE ANY FURTHER EXPLANATION OF EXHIBIT A?

20 A. Yes, I do. The Staff prepared the exhibit in compliance
21 with the Commission's standard procedures as to
22 calculating income and operating margin for water and

1 wastewater utilities. A brief description of exhibit A
2 is as follows:

3 Column (1): Presents the Company's combined water and
4 sewer operations per the Company's filing as of the end
5 of the test period under review. Special emphasis is
6 placed on net income for return and operating margin.

7 Column (2): Presents combined water and sewer accounting
8 and pro forma adjustments per the Staff for the period
9 under review.

10 Column (3): This column details the combined water and
11 sewer operations of the Company as adjusted by the Staff
12 prior to the effect of the proposed increase.

13 Column (4): This column presents the proposed increase
14 in water and sewer rates as computed by the Commission
15 Staff Utilities Department and the resulting adjustments
16 to expenses.

17 Column (5): This column presents the Company's
18 normalized test year on a combined water and sewer basis
19 after including the proposed increase.

20 Q. PLEASE ELABORATE ON THE CALCULATIONS IN EXHIBIT A.

21 A. As shown in column (1), using combined water and sewer
22 operations per the Company's filing, the Staff computed
23 net operating loss for return of (\$28,373). The Staff

1 computed a combined water and sewer operating margin of
2 negative (74.42)%.

3 Shown in Column (2) are the accounting and pro forma
4 adjustments proposed by the Staff on a combined water
5 and sewer basis.

6 In Column (3), as adjusted combined water and sewer
7 operations are presented. The Staff computed net
8 operating loss for return of (\$29,266). The Staff
9 computed the combined water and sewer as adjusted
10 operating margin to be negative (75.99%).

11 Column (4) presents the Staff's computation of the
12 Company's proposed water and sewer revenue increase of
13 \$49,621. The Staff increased other taxes and income
14 taxes for the effect of the proposed increase. The
15 effect of the proposed increase on net income for return
16 was computed to be \$45,378.

17 Column (5) presents combined water and sewer operations
18 as adjusted to normalize the test year on a pro forma
19 basis and after the effect of the proposed increase. As
20 a result, the Staff computed net income for return of
21 \$16,112. The Staff computed an operating margin of
22 18.28%.

1 Q. WOULD YOU PLEASE BRIEFLY DESCRIBE THE OTHER AUDIT
2 EXHIBITS IN THE STAFF'S REPORT?

3 A. Exhibit A-W provides the same information as Exhibit A
4 for the Company's water operations.

5 Exhibit A-S provides the same information as Exhibit A
6 for the Company's Sewer Operations.

7 Exhibit A-1 details the combined, water and sewer
8 accounting and pro forma adjustments made by the Staff
9 and/or the Company. Company and Staff adjustments are
10 compared in this exhibit with a brief description of
11 each adjustment.

12 Exhibit A-2 details the Staff's computation of the
13 Company's customer growth. The Staff performed the
14 growth calculations using the formula method as detailed
15 in Exhibit A-2. The number of water and sewer customers
16 remained constant at 156 during the test year. The
17 Staff therefore computed a growth factor of zero.

18 Exhibit A-3 provides a reconciliation of the net income
19 for return computed by the Company to the net income for
20 return contained on Staff's exhibit A.

21 Audit Exhibit A-4 presents the income statement of the
22 Company for the year ended December 31, 2002.

1 Audit Exhibit A-5 presents the balance sheet of the
2 owner of the Company as of June 30, 2003.

3 Q. WHICH ADJUSTMENTS ON EXHIBIT A-1 IN YOUR REPORT ARE THE
4 RESPONSIBILITY OF THE AUDIT DEPARTMENT?

5 A. The adjustments marked with an (A) are the
6 responsibility of the Audit Department witness and the
7 adjustments marked with a (U) are the responsibility of
8 the Utilities Department witness. The adjustments that
9 contain both an (A) and a (U) denote partial
10 responsibility of both departments.

11 Q. Please explain the Accounting and Pro forma Adjustments
12 contained in Exhibit A-1.

13 A. Adj. # 1 Annualize Revenues - The Staff proposes to
14 annualize water and sewer revenues based on a bill
15 frequency analysis for the year 2002. The Staff
16 adjusted water revenues by \$155 and sewer revenues by
17 \$233. The Company did not propose any adjustments to
18 water and sewer revenues.

19 Adj. # 2 Annualize Meter Reading and Repair Expenses -
20 The Staff proposes to annualize meter reading and repair
21 expenses based on time spent of 16 hours per month and
22 \$15.63 per hour times 12 months, resulting in a total
23 expense amount of \$3,001. The Company had included such

1 wages for a ten month period, resulting in an expense in
2 the amount of \$2,501. Staff therefore proposes an
3 adjustment in the amount of \$500 for combined
4 operations, with \$200 of such expense being allocated to
5 water operations and \$300 being allocated to sewer
6 operations. The Company's total payroll tax rate is
7 9.77%. Therefore, the Staff proposes to make an
8 adjustment to combined operations in the amount of \$49,
9 with \$20 being allocated to water operations and \$29
10 being allocated to sewer operations.

11 Adj. # 3 Billing, Recording and Collection Expenses -

12 The Staff proposes to annualize billing, recording, and
13 collection expenses, based on time spent of 20 hours per
14 month and \$16.67 per hour times 12 months, resulting in
15 total expense in the amount of \$4,001. The Company had
16 estimated such wages for a ten month period, resulting
17 in a total expense amount of \$3,334. Therefore, the
18 Staff proposes to make an adjustment in the amount of
19 \$667, with \$267 being allocated to water operations and
20 \$400 being allocated to sewer operations. The Company's
21 total payroll tax rate is 9.77%. Therefore, the Staff
22 also proposes to make an adjustment for combined
23 operations for payroll taxes in the amount of \$65, with

1 \$26 being allocated to water operations and \$39 being
2 allocated to sewer operations.

3 Adj. # 4 Proposed Revenue - The Staff and the Company
4 propose to adjust revenue for the effect of the proposed
5 rates and charges. The Company is requesting to
6 increase the basic charge for water to \$8.00 per month
7 with an additional water charge of \$3.78 per thousand
8 gallons. In addition, the Company is requesting a rate
9 of \$5.66 per thousand gallons for sewer. The Company
10 has based their increase on 7,750,000 gallons per year
11 with a customer level of 156. The Company proposes this
12 adjustment, which results in an increase for combined
13 operations in the amount of \$50,009. This includes an
14 increase in water revenues in the amount of \$20,034 and
15 an increase in sewer revenues in the amount of \$29,975.
16 The Utilities Department Staff's adjustment was computed
17 to be a total of \$49,621, which includes an increase in
18 water revenues in the amount of \$19,879 and an increase
19 in sewer revenues in the amount of \$29,742. The \$388
20 difference between Staff and Company is caused by
21 Staff's revenue annualization in arriving at total as
22 adjusted revenues.

1 Adj. # 5 Proposed Increase - Gross Receipts Taxes- The
2 Staff computed the gross receipts taxes associated with
3 the proposed increase in revenue. Staff's adjustment
4 amounted to \$161 for water operations and \$241 for sewer
5 operations, and \$402 for combined operations. The
6 Company did not propose any adjustment to gross receipts
7 taxes.

8 Adj. # 6 Proposed Increase- Income Taxes - The Staff
9 computed income taxes associated with the proposed
10 increase. Staff used a 5% rate for the State Income tax
11 and a 15% tax rate for the Federal tax. The overall
12 effect is a 19.25% tax rate because state tax is a
13 deduction in determining taxable income on the federal
14 income tax return. This results in a proposed
15 adjustment for combined operations in the amount of
16 \$3,841, with \$1,542 being applicable to water operations
17 and \$2,299 to sewer operations. The Company did not
18 propose any adjustment for increased income taxes.

19 Q. MS. CRAWFORD, DOES THIS CONCLUDE YOUR TESTIMONY?

20 A. Yes, it does.